



STATE OF CALIFORNIA

BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS
California's Investment and Financing Authority

NEWS RELEASE

04-05

Arnold Schwarzenegger, Governor

William P. Wood, Commissioner

FINAL
01/27/04

CONTACT: Kam Coveyou
916-327-6696

****INVESTOR ALERT****

Department of Corporations Warns Californians to Beware of Ponzi Schemes and Affinity Fraud

Sacramento, January 27, 2004 --- The Department of Corporations today warned California investors to be on the lookout for Ponzi schemes being promoted with investment sales tactics known as "affinity fraud." The Department has noticed a recent increase in the number of Ponzi schemes defrauding California investors, a significant percent of which are being perpetuated by people who approach their fellow church or other religious congregation members.

Corporations' Commissioner William P. Wood reiterated that while it's human nature for people to trust others who have traits in common with them, con artists know this, too, and use their victim's religious or ethnic identity to gain trust. The Department of Corporations warns investors about an increase in this type of sales tactic, referred to as 'affinity fraud,' to promote Ponzi schemes in California and encourages investors who suspect they may have invested in a Ponzi scheme to contact the Department immediately.

The Department of Corporations wants Californians to know that it's more important than ever to inform themselves about investing. The current discussion about changes to the Social Security program to encourage Americans to invest in their own private retirement accounts means that as investors they need to become better educated to protect themselves to avoid becoming victims of fraud. People who currently have no investments and no plans to invest their money would automatically become potential investors if this plan were put into place.

Ponzi schemes get their name from Charles Ponzi, who in the early 1900s took investors for \$10 million by promising a 40 percent return on their money. Operators of this variety of investment fraud use funds from previous investors to pay new investors. When the operator

(More)

inevitably runs out of new people to buy into the scheme, the scam collapses and its investors lose their money.

Last month the Department of Corporations ordered Financial Advisory Consultants (FAC) and James P. Lewis, its president and funds manager, to stop selling unqualified, nonexempt securities to Californians. As the promoter of the apparent long running, multi-million dollar Ponzi scheme, Lewis recruited investors from all over the country, many of whom heard of FAC from fellow members of their churches.

Californians should look for specific warning signs of a Ponzi scheme when presented with an investment opportunity. Red flags include: 1) “Guaranteed” double-digit returns, 2) Promises of high yields consistent over a long term, 3) “Risk-free” investments and 4) Salespeople emphasizing the exclusivity of an investment opportunity and the importance of keeping the investment a secret from your friends and family.

The Department of Corporations is California's Investment and Financing Authority, reporting to the Business, Transportation and Housing Agency and the Governor. The Department is responsible for the regulation, enforcement and licensing of securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending and residential mortgage lending. For further information or to obtain a complaint form, see the Department's Web site at www.corp.ca.gov or call 1-866-ASK-CORP (1-866-275-2677).

###